

FDIC State Profile

WINTER 2003

Hawaii

Nonfarm payroll employment in Hawaii expanded 2.1 percent above its year-earlier level in the third quarter of 2003, the second best expansion rate among the 50 states.

- Hawaii's tourism industry and nonfarm employment rebounded during 2002 and the first half of 2003, following the sharp decline resulting from the September 11, 2001, terrorist attacks (see Chart 1).
- As of mid-year 2003, employment increased year-over-year in all major sectors, except manufacturing and information. Recent building projects for homes and hotels continued to provide work, enabling employment in the construction¹ sector to expand by 4.8 percent between third quarter 2002 and third quarter 2003.
- The state's unemployment rate increased from an average of 3.9 percent in the second quarter 2003 to 4.2 percent in the third quarter 2003, the seventh lowest rate in the nation.

The growth in U.S. mainland tourism has not fully offset the decline in foreign visitors (see Chart 2).

- Tourists from the U.S. mainland, which comprised about two-thirds of Hawaii's visitor base, increased by 2.6 percent on a year-over-year basis during the first nine months of 2003. However, the 13.4% decline in visitors from Japan (the state's greatest source of foreign visitors) continued to dampen the industry. As a result, the third quarter year-to-date visitor count fell by 1.0 percent, compared with the first nine months of 2002.
- Through the first three quarters of 2003, the statewide reduction in total visitor arrivals was led by **Oahu**, which reported declines in both international and domestic visitors. **Maui** was the only major Hawaiian island that reported an increase in total year-to-date visitor arrivals (see Chart 3).
- Differences in visitor levels affected revenue-per-available room (RevPAR) growth across the Hawaiian Islands. On a year-over-year basis, RevPAR during the first eight months of 2003 increased 7.7 percent in Maui and 7.1 percent in **Kauai**. However, Oahu and **Big Island** RevPAR increased by more modest figures of 2.9 percent 2.3 percent, respectively, during the same time period.²

¹ Because of data limitations, the growth rate is based on aggregate jobs in the mining and construction sectors; however, construction jobs are believed to dominate the data series.

² RevPAR figures are based on a survey of hotels, condominiums, and other rental units by Smith Travel Research.

Chart 1: Payroll Employment in Hawaii Continues to Recover

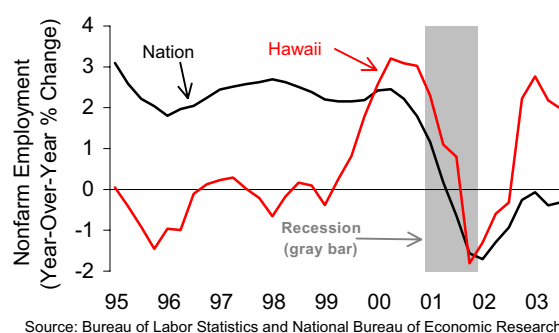


Chart 2: Increase in U.S. Mainland Visitors Has Not Offset Decline in Japanese Arrivals

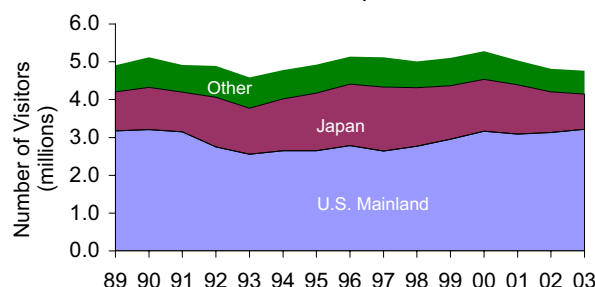
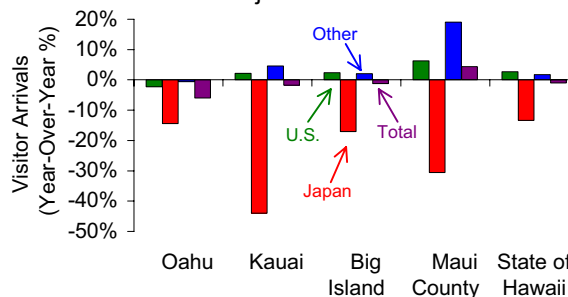


Chart 3: Arrivals Decreased on Most of Hawaii's Major Islands



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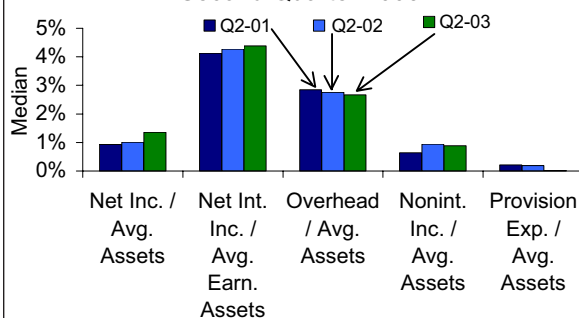
Insured institutions headquartered in Hawaii reported improved earnings and asset quality performance through mid-year 2003.

- Seven of the state's nine insured institutions reported year-over-year improvements in return on average asset (ROA) ratios through mid-2003.
- Over the past few years, net interest margins generally benefited from declining interest rates and a steepened yield curve, primarily because most of the state's nine insured institutions are either large, liability-sensitive banks or thrifts specializing in long-term mortgages.
- Declining overhead ratios and lower provision expense ratios also improved ROAs during the period (see Chart 4).
- The median overall past-due loan ratio for insured institutions based in Hawaii declined to 1.14 percent, down from 1.52 percent in second quarter 2002. The median past-due commercial real estate loan ratio improved significantly, falling 40 percent year-over-year from 1.27 percent in mid-2002 to 0.76 percent in mid-2003.

Hawaii has increasingly become a concentrated banking market.

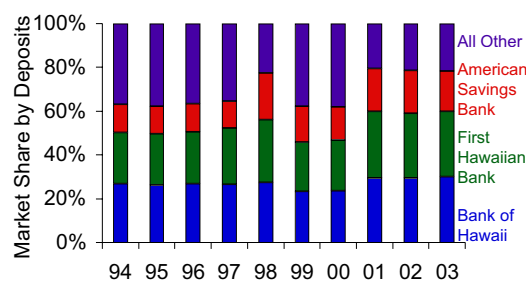
- Significant merger activity between second quarter 1992 and second quarter 2003 reduced the number of Hawaii-based insured institutions by nearly two-thirds, from 25 to 9.
- A few local competitors dominated the market. As of June 2003, nearly 80 percent of Hawaii branch deposits were controlled by the three largest in-state insured institutions. In contrast, in 1994, these same three institutions reported a 63 percent market share (see Chart 5).
- Credit unions offered an important source of competition for community banks. The ratio of credit union memberships-to-population in Hawaii was 54.8 percent as of March 2003, nearly twice the national average of 28.6 percent and fifth only to D.C., Virginia, Alaska, and Utah.³ At mid-year

Chart 4: Earnings Performance Improved in Second Quarter 2003



Source: Hawaii Bank and Thrift Call Reports (June 30, 2003)

Chart 5: Merger Activity Has Concentrated the Deposits of Hawaii-Based Insured Institutions



Source: FDIC Summary of Deposit Information (June of each year)

2002, the 102 credit unions headquartered within the state controlled nearly \$4.5 billion in deposits, equivalent to about 19 percent of the combined deposits of credit unions, commercial banks, and savings institutions.

- Competition from large, in-state insured institutions and credit unions might place downward pressure on loan yields and upward pressure on deposit costs.

³ Membership-to-population ranking is based on March 2003 membership data from credit union Call Reports (SNL Securities) and 2002 population estimates from the U.S. Census Bureau (Haver Analytics).

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Hawaii at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	9	9	10	12	14
Total Assets (in thousands)	31,020,982	29,677,680	30,016,132	30,898,875	30,360,664
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	0
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	8.90	8.80	8.81	8.22	8.65
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.14%	1.52%	1.78%	2.02%	3.11%
Past-Due and Nonaccrual ≥ 5%	0	1	1	2	5
ALLL/Total Loans (median %)	1.89%	1.95%	1.81%	1.79%	1.70%
ALLL/Noncurrent Loans (median multiple)	3.20	1.71	1.32	0.59	0.77
Net Loan Losses/Loans (aggregate)	0.14%	0.33%	1.24%	0.65%	0.47%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	1	1	0	2	3
Percent Unprofitable	11.11%	11.11%	0.00%	16.67%	21.43%
Return on Assets (median %)	1.36	1.01	0.93	0.73	0.64
25th Percentile	0.90	0.71	0.64	0.51	0.16
Net Interest Margin (median %)	4.38%	4.27%	4.13%	4.32%	4.30%
Yield on Earning Assets (median)	5.51%	6.53%	8.05%	7.94%	7.61%
Cost of Funding Earning Assets (median)	1.14%	1.86%	3.74%	3.80%	3.46%
Provisions to Avg. Assets (median)	0.02%	0.19%	0.22%	0.27%	0.37%
Noninterest Income to Avg. Assets (median)	0.89%	0.94%	0.64%	0.58%	0.60%
Overhead to Avg. Assets (median)	2.67%	2.76%	2.84%	3.02%	3.34%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	76.20%	75.66%	76.23%	87.52%	81.90%
Loans to Assets (median %)	57.70%	57.40%	63.43%	70.41%	65.95%
Brokered Deposits (# of institutions)	3	0	2	3	5
Bro. Deps./Assets (median for above inst.)	0.01%	na	0.11%	0.02%	0.06%
Noncore Funding to Assets (median)	24.29%	30.89%	34.53%	32.80%	29.07%
Core Funding to Assets (median)	58.79%	56.12%	56.49%	57.64%	58.22%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	5	5	7	8	10
National	1	1	1	1	1
State Member	1	1	0	0	0
S&L	0	1	1	2	2
Savings Bank	2	1	1	1	1
Mutually Insured	0	0	0	0	0
MSA Distribution		# of Inst.	Assets	% Inst.	% Assets
Honolulu HI		9	31,020,982	100.00%	100.00%